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SUBJECT: US-EU COEST CONSULTATIONS PART 2: SOUTH CAUCASUS

REF: BRUSSELS 666

Classified By: USEU Poloff Van Reidhead for reasons 1.5 (b) and (d)

1. (C) SUMMARY: On February 9 in Brussels, EUR DAS Lynn Pascoe -- accompanied by EUR/ACE Deputy Dan Rosenblum and EUR/ERA Director Kathy Allegrone -- discussed US-EU cooperation in Central Asia and the South Caucasus with the EU's COEST Troika. This cable covers the South Caucasus portion of the consultations. The discussion of Central Asia is reported ref. A.

-- Wider Europe Initiative (WEI): Decision will be made by end of June on whether to include South Caucasus in WEI; Irish FM Cowen, EUSR Talvitie and Enlargement Commissioner Verheugen all support South Caucasus inclusion, and are pushing others to do so; EU remains concerned about Russian reaction and overly high expectations of South Caucasus governments.

-- Georgia: EU remains confident in Saakashvili's efforts to reform public institutions; EU has 30 million euros budgeted for assistance in 2004; US and EU to enhance on-the-ground coordination even further.

-- Armenia: Kocharian making positive strides toward meeting conditions of Council of Europe membership; EU agrees that progress should be made toward opening the Turkish-Armenian border, but doubts whether this can happen without progress on Nagorno-Karabakh.

-- Azerbaijan: Ilham Aliiev tells EU he "can wait" on resolving Nagorno-Karabakh; EU agrees that recent positive attention on Georgia creates an opening for increasing pressure on Azerbaijan, which worries about being forgotten after Georgia's dramatic turnaround. END SUMMARY.

Wider Europe Initiative:
Momentum Growing to Include South Caucasus

2. (C) COEST Troika members told Pascoe that moves to include the three South Caucasus states in the EU's Wider Europe Initiative (WEI) were gaining ground. Commission rep Reinhold Brender said that a decision would have to be taken by the end of June, and noted that Armenian President Kocharian made a direct plea for WEI inclusion during a visit to Brussels in December (at which time he also invited Enlargement Commissioner Verheugen to visit Yerevan). The EU had two serious concerns about expanding WEI into the South Caucasus, he said: first, how would Russia react? And second, how could the EU gently deflate the unrealistic expectations of the three countries regarding benefits of WEI membership? The Council Secretariat's Michael Swann echoed this concern by explaining that the EU is nervous about comments by Georgian President Saakashvili and Azeri President Ilham Aliiev that EU membership is an ultimate policy objective of their countries. Wouldn't inclusion in the WEI reinforce this unrealistic objective? Pascoe replied that the EU should tell Russia that the South Caucasus states are independent, and free to choose their own sovereign policies. The benefit of expanding WEI into the region would be too great to abandon just because the Russians might get upset. Of the second concern, Pascoe said that the high expectations of regional leaders was to be expected and provided a powerful impetus to reform. There would be time to deal with these issues after WEI expansion and as reforms proceed.

3. (SBU) Irish Presidency rep Barbara Jones said that maximizing the WEI's value as a point of leverage over included countries was an issue of great concern to the EU. Council Policy Planning advisor William Boe illustrated the concern by pointed out that Syria has been in the WEI for over a year now, yet has made little progress. In that context, he asked, why should the EU expect more of Armenia after WEI inclusion? Jones noted that Commissioner Verheugen is briefing other Commissioners on the issue this month. She said that while some FMs remain wary -- arguing that the EU "doesn't need a policy driven by enlargement" -- many others are increasingly supportive of inclusion of the South Caucasus in the WEI. Among the notable supporters of inclusion were Irish FM Cowen (who "will manage the Council

debate," she said), Enlargement Commissioner Verheugen, and EU Special Rep Heikki Talvitie.

14. (C) COMMENT: The EU clearly has serious issues to resolve -- notably about scope, precedence, and managing expectations -- before signaling any decision to the region's leaders. Yet based on signals we have been receiving since December from Council, Commission and member state officials, it seems clear that the EU's momentum has shifted from debates about whether to include the Caucasus in WEI, to discussions about when, how, and to what end. Skeptics remain but are rapidly being outpaced by advocates of WEI expansion. END COMMENT.

Georgia: A Success for US-EU Cooperation

15. (SBU) Jones said the EU remains optimistic about the new Georgian administration and anticipates positive outcomes from the new reform initiatives and the upcoming parliamentary elections. She said it was important to maintain the momentum and to continue cooperating on difficult issues like Abkhazia, Adjara and IMF restructuring. Pascoe agreed, observing that Georgia represented a stunning success for US-EU cooperation. On Russia, Jones said the EU was maintaining a strong line with Moscow on the need to cooperate; Irish FM Cowen told FM Ivanov in a recent meeting that Russia must take Georgia's territorial integrity more seriously. Pascoe agreed that Russia must learn to deal with Georgia as a normal, sovereign country. Solutions to difficult issues like Abkhazia would not be found without serious Georgian progress and some Russian help. Quoting a statement by NATO SYG de Hoop Scheffer that the South Caucasus were as much a part of Europe's near abroad as Russia's, Pascoe urged the EU not to acquiesce to Russia's effort to treat Georgia as a privileged sphere of influence. While recent public statements by Russian officials seemed positive, it was important to maintain the pressure to keep Moscow moving forward. Boe said that compromise would be the key to resolving the Russian basing issues. The Russians know the proposed payment of USD 500 million is a nonstarter, he said, and will probably seek to use the presence of US forces (conducting Georgia's train and equip program) to their advantage during negotiations.

16. (SBU) Boe said that HiRep Solana and EUSR Talvitie are focused on the development of basic state structures as the primary priority in Georgia. He noted that the EU budgeted 30 million euros for assistance to Georgia in 2004. Commission rep Brender said the EU currently has 5 million euros available now for food security, and said the 2004 budget would provide for 12 million euros for the EU's TACIS (Technical Assistance to the CIS) program in Georgia, 12 million euros for food security, 4 million euros for rehabilitation projects in South Ossetia and Abkhazia, and 2.5 million euros for an EU initiative on democracy and human rights. EUR/ACE Deputy Rosenblum noted that the US FY2005 budget request for assistance to Georgia was higher than the amount requested for any other FSU state. The US is prioritizing revenue collection, anti-corruption, and job creation. He also noted that the US is considering supporting projects we have never before done in Georgia, such as helping mitigate the employment impact of public sector reform, adding that in this area the US will follow the World Bank lead. Rosenblum noted that the US contribution for upcoming parliamentary elections will amount to about one quarter of Georgia's self-assessed need of USD 3.4 million. The US was also looking for help from others to fund a USD 500,000 computerized voter registration system, he said.

17. (SBU) Pascoe urged the EU to maintain the pressure on Georgia to reform. We should not be any softer on Saakashvili than we were on the last group, he said. Saakashvili's positive start needed to be bolstered, and outside pressure should be maintained to keep the new government on track. Jones agreed, and said she would carry the message to EU member states to "keep the spotlight on" Saakashvili and his new administration. Pascoe said that US-EU cooperation on the ground should be increased even further. We should build on our success during the run up to the January election and carry our coordination into additional aspects of regional assistance, he said. Jones said the EU welcomed the enhanced coordination and would direct its Missions to continue these efforts.

Armenia

18. (SBU) Pascoe noted that while the US continues to press Turkey on the need to make progress with Armenia, Azeri President Ilham Aliyev continues to plead with Turkey not to abandon its defense of Azeri interests in Nagorno-Karabakh (NK). Turkish PM Erdogan seems interested in beginning discussions on opening the Turkish-Armenian border, but is caught between Turkey's commitments to Azerbaijan and its

partnerships with the West. Pascoe estimated that Armenian President Kocharian will eventually compromise with the Azeris over NK, but perhaps Ilham Aliev is not yet a strong enough Azeri partner. Boe voiced skepticism that the that NK could be delinked from the issue of Turkish-Armenian relations, and asked rhetorically how it would be possible to open the Turkish-Armenian border without first resolving NK. Pascoe said that the US and EU needed to set out a series of arguments to push home resolution of NK as soon as possible, rather than just letting it simmer on indefinitely.

9. (SBU) Jones assessed as positive Kocharian's recent progress toward meeting the conditions of Council of Europe (CoE) membership. Pascoe agreed, underscoring that CoE membership remained a useful point of leverage over Armenia.

Azerbaijan

10. (C) Boe noted that Ilham Aliev told EUSR Talvitie during a recent visit (January 20 to February 5) to the region that he (Aliev) could wait for a solution to NK. He was young and not in a hurry like his father had been, Ilham reportedly said. Boe said that it was unclear whether Ilham's remarks signaled a shift in policy or a sign of his weakness as he tries to consolidate power in Baku. Boe also remarked that he and Talvitie had been hearing conflicting stories about Ilham's personal interest in power. "Some say he wants power, and some say he only wants to play," Boe said. In either case, the Azeris seem to playing up the image of Ilham as a professional by boasting to Talvitie that Ilham now shows up for work at 9:00 every day.

11. (C) Pascoe said the US was trying to strengthen Ilham and assist him with reform efforts because, while far from perfect, he is the most progressive figure available from a pool of unimpressive candidates. Boe asked how we intended to do that. Pascoe responded that the US was exploring ideas with Ilham and would want to discuss these issues during Talvitie's March 1-2 visit to Washington. Boe pointed out that Georgia's recent and dramatic progress -- which has the Azeris complaining that the Georgians are getting all the attention lately -- provided a useful point of leverage over Ilham. Pascoe agreed that Georgia's about-face had had a profound impact on Azerbaijan, and said the US and EU should use this new leverage for maximum benefit.

Schnabel